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C O N F I D E N T I A L SECTION 01 OF 04 BAGHDAD 002541

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TAGS: [ECON](#) [EFIN](#) [IZ](#) [EAID](#) [PREL](#) [PGOV](#)
SUBJECT: BUDGET EXECUTION UPDATE: ACCOUNTABILITY, BUT NOT
YET ACCOUNTING

REF: BAGHDAD 1576

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (b) and (d)

¶1. (C) Summary: Several actions undertaken by the Government of Iraq (GOI) in recent months and an increase in data reporting by GOI units underscore the importance with which the GOI now views this issue. The developing creation of a culture of accountability between the GOI and its citizens is a noteworthy achievement. While the GOI's ability to execute its capital investment budgets remains hindered by lack of capacity in contracting, timely release of funding, and convoluted guidance in execution instructions, the overall trend continues to be positive. Our ability to gauge the successful execution of the capital budget is similarly hampered by the lag in budgetary data reporting by the MoF, although other units (i.e. MoPDC) provide useful data on a more timely basis. Through the end of May, MoPDC reporting indicates that it has approved release for 35% of the capital budget. With an additional two-month delay, the MoF is reporting 23% released. USG-funded capacity building projects tailored specifically toward budget execution practitioners continue. Most significantly, 2007 capital budget spending releases have been made to each province in the last few months. Most provinces have obligated more than 40% of their capital budgets, clearing the way for project initiation. End Summary.

Provincial Obligations Rising

¶2. (SBU) We have confirmed with the Central Bank of Iraq (CBI) that all provinces have opened a capital investment account, as required by new MoF rules based on recommendations from the IMF. PRT reporting indicates all but four provinces (Wasit, Anbar, Diyala and Maysan) have obligated 90% or more of their 2006 budget allocations for capital investment. Statistics on contracting of capital investment funds slotted for 2007 show the same trend. That provincial contracting is on the rise is an especially encouraging sign in Iraq when taking into account the previous system for public expenditures, in which decision making was wholly dominated by the center.

¶3. (SBU) Reporting on Maysan budget execution is hindered by the absence of a PRT. Anbar has only recently emerged from kinetic operations, and is beginning the contracting process for 2006 and 2007 capital investment budget allocations. Anbar Governor reported to DPM Salih, MND-W DCG Allen, Embassy and PRT officials 29 July that tenders are out, 1,000 bids are in hand, and that by 30 August most of the 2007 capital budget will be committed. In Diyala province, kinetic operations are ongoing and constitute the most significant budget execution hurdle.

Capacity Building Continues

¶4. (SBU) In mid-June, the Budget Execution Monitoring Unit (BEMU) began operations. The unit, which receives partial funding from the USG, was established by the office of DPM Barham Salih and assists the GOI in identifying budgetary bottlenecks, consolidating financial data for analysis, and more general troubleshooting for various ministries and provinces. While only recently filling-out its staff, we believe the BEMU will over time play an important Iraqi-led role in improving the overall budget execution process.

¶5. (SBU) Beginning the week of 14 July, a six-session public financial management workshop, financed by the World Bank, gathered together approximately 30 technocrats from the Ministry of Finance (MoF) and the Board of Supreme Audit to review the public financial management system in Iraq and identify reforms to help the government use its financial resources more efficiently and with greater transparency and accountability. The goal of the workshop is to enable the GOI and the World Bank to complete a Public Expenditure and Institutional Assessment (PEIA) by October.

¶6. (SBU) A partnership between the USG and the Ministry of Planning and Development Cooperation (MoPDC), the Procurement Assistance Center (PAC) assists ministries in preparation of contracts using Iraqi procurement law and regulations. The PAC continues to achieve objectives related to the use of new procurement authorities and contract development for award. The Minister of Planning wrote letters to his fellow ministers recommending use of the PAC and approved a standard procurement office design. A budget execution handbook for

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practitioners in Arabic and English was published and is being disseminated to ministries and provinces.

¶7. (SBU) In mid to late August, a conference on budget execution for PRT budget execution action officers will be held. The purpose of this conference is to provide an open forum for PRT officers to exchange best practices, discuss 2008 budget execution guidelines, and provide valuable technical training to assist the PRT advisors when coordinating with their GOI counterparts. We also intend to invite GOI public finance officials to attend.

Reporting Lags, but Trends are Encouraging

¶8. (C) The suspension of the USAID-funded Financial Management Information System (FMIS) following the kidnapping of a Bearing Point contractor and his four-person security detail from a MoF building in June complicates GOI efforts to accelerate and standardize budgetary reporting. As required by the Stand-By Arrangement (SBA) with the IMF, the MoF formally adopted a new chart of accounts, which unfortunately obscures direct comparison with previous reporting, particularly in the area of capital spending. The future of FMIS is in doubt. Our approach thus far has been to ask for more GOI engagement and commitment to the project, in the form of a project agreement and counterpart funding. Greater GOI funding for specific components of the project would establish a sense of Iraqi "ownership," an absence of which has been a significant weakness of the FMIS program from its inception.

¶9. (SBU) The MoF reports on spending on capital investment by the various spending units typically lag by 3-4 months. Ministerial and MoPDC commitment or approval data are usually on a 1-2 month delay. The adoption of the new IMF-required chart of accounts notwithstanding, we are seeking to identify other means to report expeditiously on GOI budget execution. Thus far we have been able to collect data from a variety of

data sources at different stages of the budget execution process. While this has provided greater visibility into the flow of funds, the delays in various reporting cycles complicates interpretation and review. For example, the MoPDC reports that the Ministry of Oil has expended 538 million USD, but that only 238 million USD was approved for release. The most compelling explanation in this instance is the delay in MoF reporting. As is the case in most systems, it can take months for various government units to reconcile fully their reporting.

¶10. (C) Nevertheless, the data reported thus far demonstrates significant progress in capital execution. The MoPDC recently released an "Investment Budget Report" demonstrating positive trends to date. Data through late May indicates that the MoPDC has approved release for 35% of the capital budget. Reported expenditures lagged closely behind MoF releases, and reached nearly 23% by mid June. (Note: The current GOI rate of executing its capital budget is comparable to USG agencies' ability to execute new capital funds in one year. End Note.)

¶11. (C) Compared with the overall capital investment budget execution rate of 22% for 2006, the GOI has already exhibited significant progress in budget execution. Reftel noted that the mid-year reallocation process may serve as a built-in incentive for ministries to execute their 2007 budgets. Thus far however, we have heard verbal assurances, but little practical evidence that the GOI will actually reprogram substantial funds from poorly performing spending units. Funds reprogrammed this late in the year will be difficult to commit before the year's end in any case, jeopardizing the ability of the GOI to execute fully its 10 billion USD budget for 2007.

Terminology Redux

¶12. (U) To aid interpretation of the data provided below, the terminology guide from reftel follows:

-GOI "Spending Plan/Budget Allocation": Budgetary authority to a GOI unit, in accordance with the Budget Law, with sub-allocations defined by the MoF. This equates to a USG "commitment," or an internal reservation of funds for a particular purpose.

-GOI "Release": Equates to USG apportionment; release of funds from the Ministry of Finance (OMB has this responsibility in the USG) to a spending unit based on

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project needs or cash flow. MoPDC reviews and approves the spending unit's request for release, and the MoF confirms consistency with the approved budget allocation and liquidity needs of the spending unit.

-GOI "Commitment": Equates to a USG obligation, i.e. the spending unit awards a contract or other binding agreement.

-GOI "Disbursed": Equates to USG expenditures or outlays. Two types of expenditures are often used interchangeably: 1) funds disbursed to a non-GOI entity (i.e. contractor) resulting in a net outlay; and 2) disbursements from one GOI account to another.

Ministerial Data

¶13. (SBU) MoF data, following the adoption of a new, IMF-approved chart of accounts, now distinguishes between only two types of expenditures: operating and acquisition of non-financial assets, which makes isolating ministerial capital expenditures more difficult. It also obscures direct

comparisons of budget data based on the old versus the new chart of accounts. To address this issue, the MoF budget office has promised to keep independent capital budget records according to the old system, but the accuracy and utility of this information is not yet known. The thirteen ministries sampled below represent those ministries deemed by the USG to be most critical in providing essential services. As noted previously, MoF data (Table I) experiences the greatest delay but is typically most accurate. MoPDC data (Table II) is reported with less of a delay, but historically has not been as accurate as MoF data.

¶14. (SBU) Table I: MoF expenditure data* through April 2007:

	Total Annual Budget	Operating Budget	Non- Financial Assets	Percent of Total Executed
Finance	14,545	2,436	0.3	17
Defense	4,141	516	1.0	12
Interior	3,182	649	7.2	21
Oil	2,451	12	0.1	0
Education	1,821	382	4.1	21
Health	1,818	183	4.7	10
Electricity	1,474	2	0.0	0
Higher Education	865	133	2.5	16
Housing	423	16	20.4	9
Public Works	378	9	8.7	5
Planning	210	3	0.0	1
Justice	125	25	1.0	20
Agriculture	109	17	0.2	16
Total	31,542	4,383	50.2	14

¶15. (SBU) Table II: MoPDC investment data* through June 2007:

	Capital Budget	MoPDC Capital Released	Actual Expenses	Percent Capital Executed
Finance	110	37	3	3
Defense	48	16	2	4
Interior	40	12	0	0
Oil	2,381	238	538	23
Education	291	30	87	30
Health	342	46	4	1
Electricity	1,385	554	504	36
Higher Education	206	82	9	4
Housing	335	148	53	16
Public Works	338	150	165	49
Planning	79	8	21	26
Justice	10	1	0.5	5
Agriculture	50	17	1	3
Total	5,615	1,339	1,388	25

*sorted by size of 2007 budget allocation, USD millions based upon the official exchange rate of 1,260 Iraqi Dinars to one USD

Provincial Data

¶16. (SBU) Provincial budget execution data is provided by PRTs. Capital investment spending by the provinces of their 2006 budgets is difficult to verify because the provinces

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were funded by transfer grants. Not until the 2007 Budget Law was passed did provinces become actual spending units. Diyala, Maysan, and Anbar all experienced significant kinetic operations. The difficult security situation complicated budget execution efforts there.

¶17. (SBU) Table III: PRT data** on 2006 provincial budget obligations:

Province	Budget Allocation	Amount Committed	Percent Committed
Baghdad	503	503	100
Ninewah	202	202	100
Basrah	172	165	96
Dhi-Qar	165	165	100
KRG	131	126	96
Babil	111	111	100
Diyala	99	19	20
Salah Ad Din	83	85	102
Anbar	82	45	56
Tamin	81	81	100
Najaf	79	72	92
Qadisiyah	74	74	100
Wasit	74	47	63
Karbala	62	56	90
Maysan	55	19	34
Muthanna	46	42	92
Total	2,019	1,812	90

¶18. (SBU) Table IV: PRT data** on 2007 provincial budget obligations:

Province	Budget Allocation	Amount Committed	Percent Committed
Baghdad	560	264	47
Ninewah	226	36	16
Basrah	195	90	46
Dhi-Qar	138	119	86
KRG	314	113	36
Babil	112	112	100
Diyala	110	0	0
Salah Ad Din	93	33	35
Anbar	107	0	0
Tamin	90	39	44
Najaf	88	32	36
Qadisiyah	64	29	46
Wasit	83	32	38
Karbala	71	58	81
Maysan	73	0	0
Muthanna	52	16	30
Total	2,376	973	41

** sorted by size of 2006 capital investment budget allocation, USD millions. Data from 2007 are based on the official exchange rate of 1260 Iraqi Dinars to one USD, and data on 2006 are based on the official exchange rate of 1,500 Iraqi Dinars to one USD.

Comment

¶19. (C) The rate at which provincial governments have obligated contracts is a success that cannot be overstated. This shift in accountability between provincial governments and their citizens is the underlying principle guiding our efforts. Over time, this aspect of good governance would represent a critical watershed for Iraq. Still, there is significant room for improvement for the GOI to execute its capital investment budgets. We remain committed to assisting the GOI in developing the capacity required to increase efficiency in its budget execution efforts.

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